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C O N F I D E N T I A L ANKARA 001082

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E.O. 12958: DECL: 07/09/2029

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SUBJECT: TURKISH ENERGY POLICY UNDER ENERGY MINISTER YILDIZ

Classified By: Economic Counselor Dale Eppler for reasons 1.4 b, d

¶1. (C) We met July 1 and July 27 with Faruk Demir, a long-time advisor to former Energy Minister Guler who was negotiating a new advisory contract with the new Energy Minister, Taner Yildiz. According to Demir, the change of minister is likely to bring changes in energy policy. While some areas, such as continued oil exploration, are likely to remain unchanged, other areas, such as electricity distribution and nuclear power, will possibly move in a different direction.

¶2. (C/NF) Guler was a close friend of Prime Minister Recep Tayyip Erdogan, but Yildiz is known to be close to both President Gul and to Erdogan. Because of this, Demir expected that Erdogan would likely feel the need to place people in the Energy Ministry to monitor Yildiz's actions and find new energy advisors (note: Yildiz was the AK Party's energy advisor for 1.5 years prior to being named Energy Minister in late May. end note.) Demir assessed that these people would likely be AK Party Deputy for Rize Ali Bayramoglu, AK Party Deputy for Diyarbakir Ihsan Aslan, and the newly appointed Energy Undersecretary, Metin Kilci. In the July 27 meeting, Demir indicated that Bayramoglu definitely was moving up in terms of influence with the Prime Minister on energy issues.

¶3. (C) The difference in approach between Guler and Yildiz also reflects their different sect memberships. Guler is from the Iskenderpasa sect, which Demir said is known to be former president Ozal's sect and to be focused on commercial and political issues and policymaking that benefits its members. Yildiz is from the Menzil sect, which has a more spiritual orientation, according to Demir.

¶4. (C) Guler and his circle within the ministry was known to have a close relationship with the Russians. For this reason, according to Demir, Guler and his team postponed several important decisions on some critical projects, such as the Nabucco pipeline. Guler also had tendency to not make any decisions prior to a cabinet reshuffle, which also led to slow decision making in the ministry. Yildiz, who came from the business world and is not known to have a connection to the Russians, may make quicker decisions than his predecessor. In the July 27 meeting, Demir said GOT energy policy was moving towards a closer relationship with Russia.

¶5. (C) Demir said that AKP deputies generally do not want the Russians to win the nuclear power plant tender. This was more due to technical problems with Russian equipment rather than wanting to have less dependence on Russia. A decision on the Russian bid for the tender was delayed for two reasons: Guler was unable to make a decision so close to a cabinet reshuffle, and the TETAS board overstepped its authority by trying to deciding the price for the tender. In his opinion, the cabinet will bargain with the Russians to lower the price. Demir said he suggested ten U.S. cents per kilowatt hour as a fair price.

¶6. (C) The resignation of the head of the nuclear regulatory body TAEK, Oktay Cakiroglu, was not due to his acceptance of the Russian nuclear bid, according to Demir. Cakiroglu was a schoolmate of Guler, not an AKP member, and was seen as being unqualified for his position at TAEK. Cakiroglu had previously submitted his resignation, but it was not accepted at the time. Once Guler left the Ministry, however, Cakiroglu's resignation was dusted off and accepted.

¶7. (C) Regarding oil exploration, Demir said that Turkey does not have a concrete policy beyond exploration on and offshore. This is likely to continue. In electricity, however, Yildiz may be more sympathetic than Guler to the private sector's concerns because of his background in the private sector and his experience in managing electricity companies. Demir thought that Yildiz may have experienced some of the delays that were caused by the ministry not implementing regulations that were needed to carry out the law, which caused some investors in the electricity sector to pull out.

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